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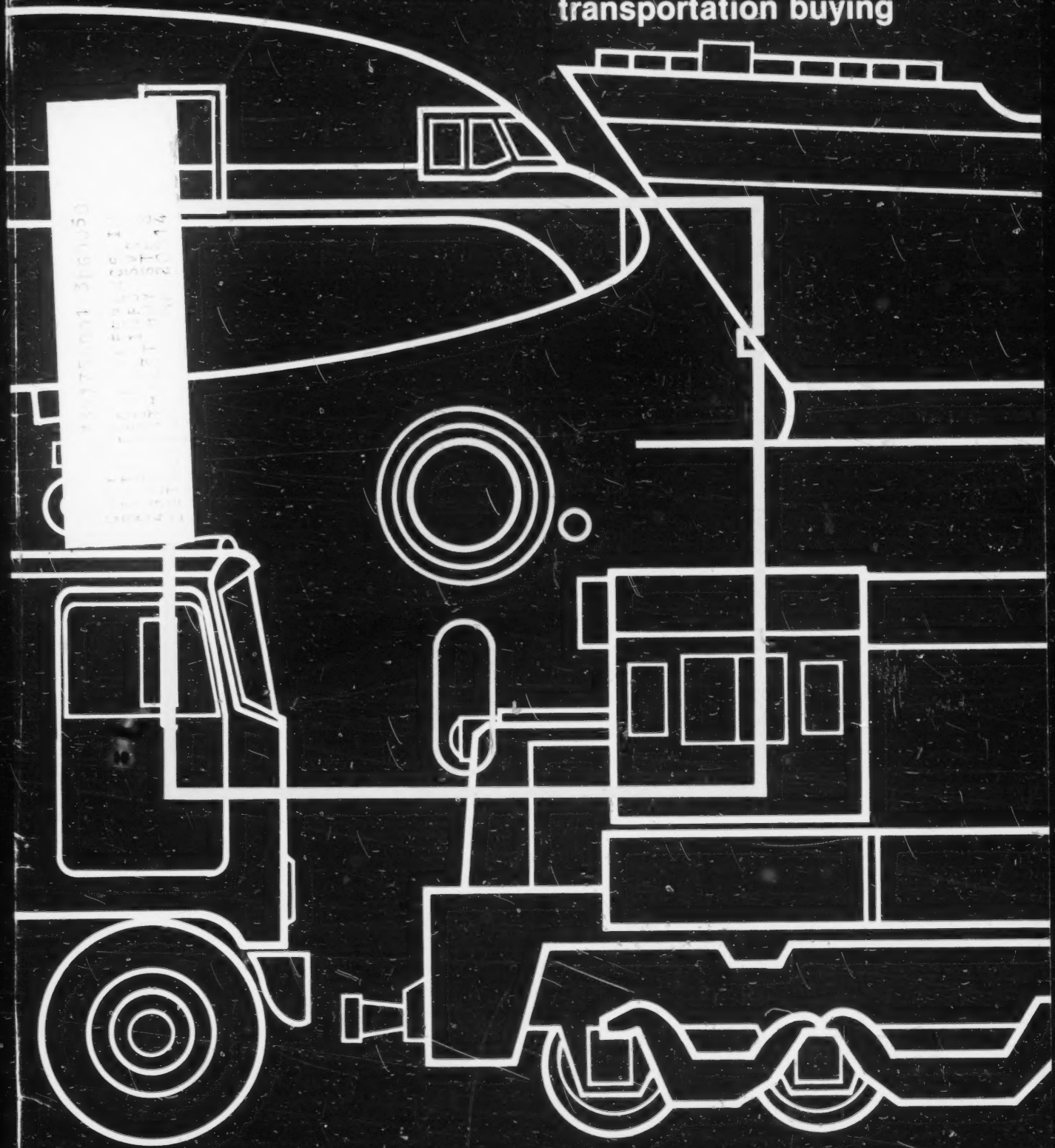

PurchasingWorld®
Helping you manage the business of buying
Vol. 29 No. 11-November 1985

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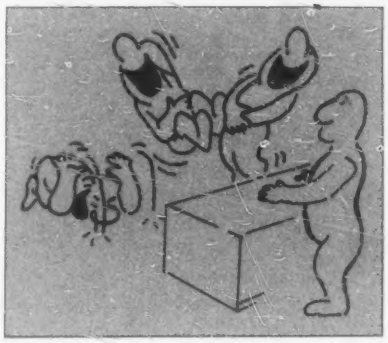

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PW PREDICTS

Robert S. Reichard, executive editor

Dollar's dip means small change

Discount talk of a weakening dollar setting off any new price spiral.

For one thing, it isn't certain that announced plans to bring the dollar down to more realistic levels will actually work. Even if they do, the inflationary effect is expected to be modest. Some reassuring factors:

■ It is in nobody's interest to see the dollar fall precipitously. The avowed goal is for only about 10% additional decline over the next year or so—for good reasons. Foreign exporters fear that any sharper decline would cut into their big U.S. markets. And Washington fears that big plunge would dry up the huge inflow of foreign capital that has been helping to finance the huge budget deficit.

■ A drop of just 10% would still leave a lot of fat on the dollar. Consider the fact that the dollar's purchasing power is still close to 40% above 1980 levels when our currency first began to shoot up.

■ Markets tend to adjust to currency changes slowly. Historically, any shift in the dollar has taken around a year before it had any meaningful impact on the overall price level. Look at the record. The dollar is already off more than 10% from early 1985 peaks and inflation rates have scarcely budged.

■ The dollar has been so strong for so long that foreign firms have been able to sell here at inflated prices *vis-a-vis* production costs. Autos are a perfect example. Many overseas firms have been able to build up hefty profit cushions. This would probably allow them to absorb any exchange rate differentials, enabling them to hold their U.S. prices stable and retain their market share.

■ There are too many buyers' markets—typified by supply/demand imbalances—that should discourage foreign vendors from boosting prices in line with a weakened dollar. It is difficult to see such glutted commodity sectors as steel, nonferrous metals, chemicals, plastics, and textiles rising much above current levels even with a depreciated dollar.

Most economists and econometric models tend to support this non-inflationary appraisal. One business analyst, for example, has a simple rule of thumb: He counts on only 1% increase in the general price level for each 10% dollar devaluation.

But even this may be an exaggeration. Wharton Econometrics, for example, finds only moderate inflationary effect after plugging sharp dollar declines into its econometric model (6% in the third quarter 1985, 12% in the fourth quarter, and an additional 20% devaluation in 1986).

Another encouraging note: Other (non-dollar-dependent) inflation factors will also be weak over the coming quarters—(1) oil tags could fall further, (2) food quotes look to remain relatively unchanged, and (3) wage gains have stabilized.

In short, there is little to suggest any major uptick in the overall price level even if the dollar declines. *PW*'s latest GNP price deflator estimates peg the average advance for 1986 at 3.5%, just about in line with this year's estimated 3.4%.

1986 fleet car choices

Mid-size cars are "in" for 1986 fleet car purchases.

During the upcoming year about two out of every three cars entering commercial fleets will be in the mid-size category. That compares to only 35% two years ago and 54% for the just-completed 1985 model year.

The gains, according to the National Association of Fleet Administrators survey of 200 fleets, are coming at the expense of both compacts and large cars. Subcompacts are practically nonexistent in these fleets.

Other key findings of the just-released study:

■ AM/FM stereo, cruise control, and tilt steering wheel are growing rapidly as popular options. If the trend continues, they may become as common as automatic transmissions and air conditioning.

■ Four-door sedans continue to dominate body styles selected.

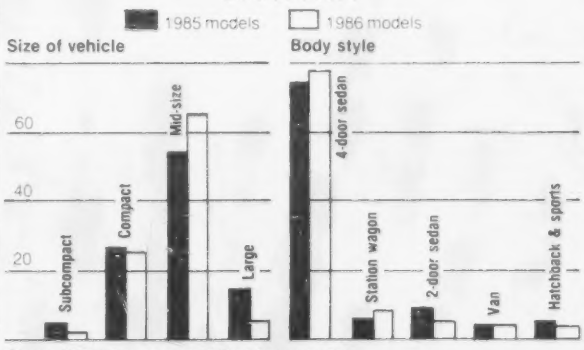
■ While only a handful of fleets are making changes in specifications, there may be a trend developing in the selection of 4-cylinder engines for mid-size cars.

■ As a rule of thumb, however, most buyers order compacts with 4 cylinders, most mid-size cars with six cylinders, and most large cars with eight cylinders.

■ Initial cost is the most important factor in fleet car selection, followed (in descending order) by depreciation, resale value, economy of operation, serviceability, prestige, and fringe benefits.

1986 fleet car choices

(% of purchases)



Source: National Association of Fleet Administrators

PW PREDICTS

Aluminum

CURRENT SITUATION: Buyers continue to hold most of the trump cards partly because of lackluster demand holding at last year's levels. Foreign producers, plagued with overcapacity and drawn by the strong dollar, continue to funnel cheap imports into the domestic market. Result: ingot last month was fetching only 47¢/lb—a sharp drop from the 54¢/lb level of last December.

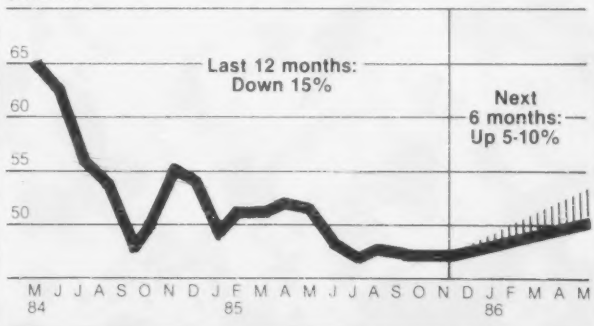
DEMAND: Don't count on any big new spurt. Next year is looking more like a repeat of 1985 (with about 7.7 million short tons likely to be shipped by domestic producers). Blame it on flat markets for packaging, construction, and autos. Only commercial aircraft should show a good increase. **The 1986 outlook for the Free World as a whole isn't that much more bullish—primary aluminum consumption is expected to be up only 2%.**

SUPPLY: Markets remain glutted—despite the fact that U.S. producers have cut output to only 70% of potential. Reason: The Free World as a whole is producing at 85% rate (95% in Canada), and Australia is turning out 20% more metal than it did in 1984. There's capacity abuilding especially in Australia and China. And **inventories are top heavy—North American stocks are off only 5% from 1984's highs.**

PRICE OUTLOOK: Some price boosts seem inevitable by early 1986. (Some U.S. firms need 60¢/lb to break even). Low consumer stocks and fear of a possible U.S. strike next year could help buoy prices. **But hikes are likely to be quite modest with little chance of basic ingot rising much above the 50¢/lb level over the next 3-6 months.** Advances in fabricated products are likely to be very restrained because of 1) overcapacity in rolling mills, 2) continuing import competition, and 3) the normal lag in price changes.

Aluminum ingot (market price)

(cents/lb.)



Steel

It's still too early to tell whether the recently announced January boost on sheet steel will hold. Two factors suggest that the hike could be in trouble: 1) low mill operating rates (under 70%), and 2) still strong import penetration. Finished steel is coming in far above the 18.5% market penetration target first announced late last year. Reason: Imports are pouring in from non-quota "Third World" countries. Relatively low demand is also a factor in holding price rises in line. Shipments for 1985 are not likely to top last year's 73 million tons. Next year doesn't look much better.

Styrene

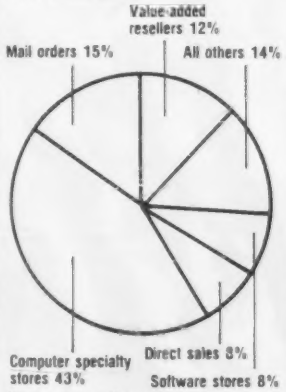
A new 1.5-2¢/lb price increase (over and above recent 25¢/lb levels) may not make it despite temporary plant shutdowns. Reason: 1) Prices have actually been moving the other way with 1-1.5¢/lb shaved off tags during the summer months, 2) Benzene (the primary feedstock for making styrene) is starting to sag, and 3) There's still more than enough of the chemical to go around. Even a producer concedes, "It's still a buyers' market."

Computer software

Prices are still heading down. Sign of the times: Quotes on programs that compete with Lotus' popular 1-2-3 package are priced as much as 75-80% lower. And on a more general level, large buyers are turning to specialized mail order operations and other firms that supply software in large volume at discount prices. Some large users are also getting direct distribution (via centralized purchasing) from producers at cut-rate prices. Another money-saving approach is site licensing which gives big customers the right, for a fee, to copy and distribute copies within their own organizations.

Computer software sources

(% of dollar sales)



Source: Future Computing

Copper

Count on bargain-basement prices continuing—with producers unlikely to get more than 65¢/lb. for their metal through year-end. Reason: Free World production is again equaling or exceeding demand, thus preventing any cutback in still high inventory levels. On the consumption front, for example, global chew-up will amount to no more than last year's 7.6 million

PW PREDICTS

Refined petroleum products

CURRENT SITUATION: "Nervous" is the only word to characterize today's market. Fears of gluts and new production increases by Saudi Arabia and Iraq are being offset by Iranian supply interruptions from the Gulf war. However, prices have been drifting lower—overall refined petroleum tags in the U.S. have fallen about 6% since spring. Slow demand could also be a factor in the decline. **Year-to-date U.S. oil consumption has dropped 2% under a year ago.**

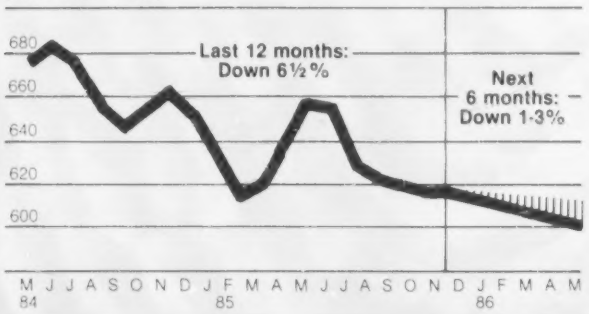
DEMAND: Even with some late pickup, overall 1985 consumption won't meet last year's level. Best bet: a 0.5-1% decline due mostly to a sharp 15% drop in resid oil use. But if you assume a 2.5% real GNP growth rate for next year, **petroleum could come back by about 1% (to 15.8 million bbl/day.** There will be disappointments—particularly in gasoline where increases in travel demand are more than offset by increases in mpg efficiency. **But resid oil should stabilize after 1985's big drop. Distillate fuel oils could be up as much as 5%.**

SUPPLY: Barring any surprises, there should be more than enough oil to go around. Saudi Arabia's decision to boost production by 1 million bbl/day should allow OPEC to maintain its current 40% share of the Free-World market. The U.S. supply of home heating oil should be more than adequate for the upcoming winter. **And for 1986, overall U.S. oil production should remain steady at 11.2 million bbl/day.**

PRICE OUTLOOK: With these supply/demand projections and aggressive Saudi Arabian marketing, more near term softness cannot be ruled out. **DOE projects that 1986's average import crude price wil drop to near $26/bbl.** This could mean more easiness in most refined petroleum products. Second quarter 1986 quotes should run something like this: Gasoline (−6%), wholesale #2 oil (−4%), and #6 oil (−13%).

Refined petroleum products

(Index: 1967 = 100)



metric tons—as U.S. and European demand lags and Chinese buying slows down. All in all, it means continuing trouble for U.S. producers who need almost 80¢/lb to break even—far more than the Free World's 58¢/lb average.

Lead

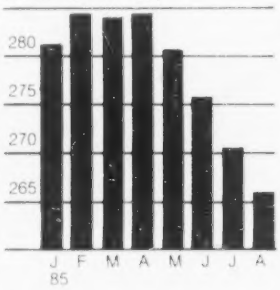
Tags continue to back and fill in the low 18.5-19¢/lb range—despite the fact that this is the height of the battery maker lead-buying season. These key users, hurt by last year's mild winter, apparently have excess lead on hand and are leery of any major purchases until their business perks up. Also holding battery makers back: U.S. primary producer lead stocks are now running at a more than 2-month supply and secondary producers are waiting in the wings to fill any sudden demand spurt. The result: continued price weakness into early 1986.

Paper and products

Recent $60/ton boosts in uncoated white papers have washed out—with tags again reported to be down as much as $125/ton under list. And while coated papers are generally holding firm, isolated reports of discounts are noted by some volume buyers. Meantime, corrugated cartons are beginning to bottom out, though levels come 6-7% under early 1985 readings. Elsewhere, the industry is trying to boost unbleached kraft paper by $30/ton. But chances of it sticking, given current poor demand conditions, seem quite slim.

Corrugated prices

(Index: 1967 = 100)



Computer hardware

Price declines are still the order of the day. IBM, for example, is offering rebates on some hard disc PCs (as much as $350 or 6% on the PC AT and as much as $300 or 8% on the PC XT). And Big Blue could be ready to post more reductions by year-end as inventories continue to mount. Apple has reduced tags on all of its lines anywhere from 10-25%. But despite all the price erosion, microcomputer dollar sales will still be up for 1985 as a whole—with industry billings expected to reach $8.5 billion, up 10% from 1984 levels.

Titanium dioxide

Count on a new 3-4¢/lb increase sticking. New list quotes are 78¢/lb for the rutile grade (up 3¢) and 74¢/lb for than anatase grade (up 4¢). It follows a similar upward move by

Semiconductor demand

Look for the semiconductor market to turn around. Increasing demand for integrated circuits and discrete devices should rack up sizable global gains by next year.

Worldwide dollar sales of ICs, for example, are projected to rise 21% in 1986, offsetting this year's estimated decline (see chart). The same thing seems to be happening in the less volatile discrete sector where this year's 8% drop-off is expected to give way to a 7% advance in 1986.

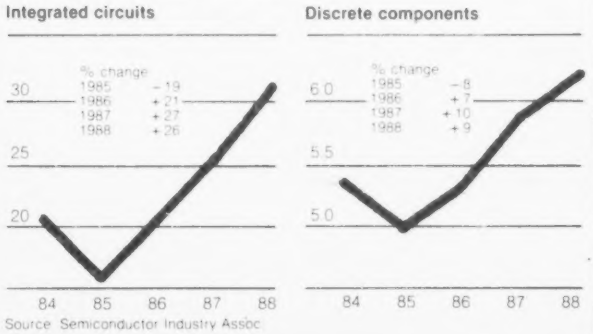
Moreover, this new upward trend—based on a forecast prepared by the Semiconductor Industry Association—is expected to continue into 1987 and 1988. This should firm prices after the sharp declines of the past year which saw an average fall of about 20% from 1984 highs.

Some of the more detailed estimates revealed by the just-released study:

- Overall IC sales are expected to increase 21-27% each year through 1988, topping $32 billion by that time.
- Among IC product groups, only digital CMOS ended up on the plus column this year (up 7% to $3.3 billion). More important, annual growth of between 30-49% is expected to bring these sales to $9.4 billion by 1988.
- Total dollar sales of digital N + PMOS memories and logics dropped this year primarily because of sharp price declines.
- But both will recover next year, with memories expected to spurt 32% and logics about 19%.
- Analog sales dropped close to 4% this year but will post gains of 11-16% through 1988. Digital bipolar devices, down 22% this year, should grow at 17-20% annual rates over the next few years.
- Discrete devices, down 8% this year, will grow by nearly 7% in 1986 and by close to 10% during the following two years, reaching a total of $6.3 billion by 1988.

Semiconductor markets: a 3-year look ahead

(Total—U.S., Europe, Japan; billions of dollars)



Source: Semiconductor Industry Assoc.

overseas producers. Behind the firming: recent reductions in capacity that have made supplies rather snug—not only here but overseas. Result: producers everywhere are operating at capacity and holding just minimal inventories. The overseas tightness has also cut down on import competition—with incoming shipments off 5-10% over the last six months.

Zinc

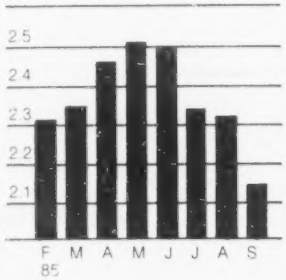
World demand (now lagging year-ago levels) and high inventories (again rising) are combining to put downward pressure on prices. Indeed, not even the closure of Asarco's big Corpus Christi smelter has made a difference. Signs of the time: U.S. dealer quotes barely above the mid-1930s level, LME prices in the low 30s, and new cuts in European producer tags. Nor is any near-term change seen as orders continue on a hand-to-mouth basis and world producers drag their feet in making needed production cutbacks. As such, look for softness to persist, though a modest rally in early 1986 is possible if U.S. and European demand pick up as expected.

Nickel

The plating and alloying metal has given up all of its earlier 1985 price gains. Dealer cathode, for example, has dropped close to 15% under its late spring high. And LME tags recently slipped under $2/lb. The basic problem: a worldwide glut as additional material (some of it cut-rate) comes from such new sources as Australia and the Western Pacific. Another possible factor in the current weakness: Some producers are said to be offering substantial price concessions in an effort to increase their overall share of what is now basically a flat market.

Nickel prices

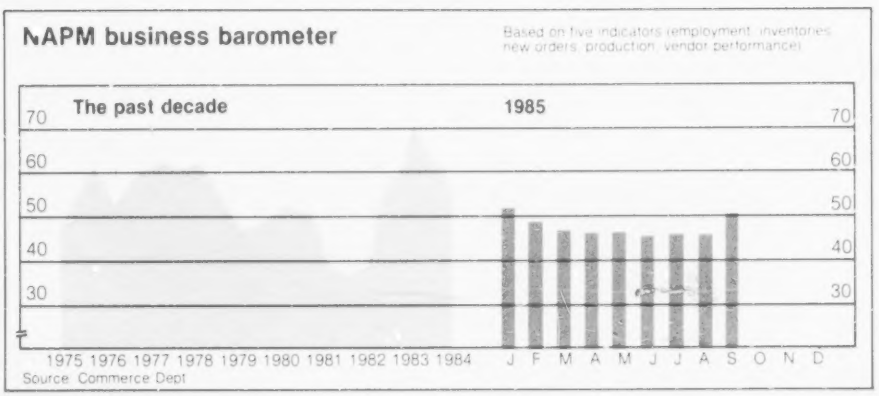
(Dealer cathode—$/lb.)



Molybdenum

The oxide remains on shaky ground as dealer quotes drop into the $3/lb range, off some 25¢/lb from late August levels. The official producer list has also been reduced (by $1/lb) and ferromoly is on the decline. Producers are becoming more aggressive, too, offering competitively priced spot material, just-in-time deliveries, and formula pricing to make deals more attractive. Behind the easiness: high inventories which, at 45 million lb, now represent more than a year's supply for U.S. users.

BUSINESS DATATRAK


NAPM business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
1985
70
60
50
40
30
1975 1976 1977 1978 1979 1980 1981 1982 1983 1984
J F M A M J J A S O N D
Source: Commerce Dept

KEY ECONOMIC TRENDS

Renewed vigor buoys business

Things are looking a bit brighter on the business front these days. Take NAPM's widely monitored business barometer, for example. For the first time since January, this indicator of near-future business activity has jumped over the neutral 50 mark to nearly 51.

As NAPM survey committee chairman Robert J. Bretz puts it: "The economy is showing definite signs of improvement. Surely, one month doesn't make a turnaround, but the numbers are impressive."

Also encouraging is the fact that the overall stock/sales ratio remains fairly low compared to levels of the past decade (see story following). This suggests that orders will have to be met by new production rather than by inventory drawdown.

Moreover, the backlog of unfilled orders has been in a rising trend for four straight months—another strong indicator of probable gains in factory output over the next few months.

On the other hand, no one expects a major economic upsurge. Business leaders can best be described as "cautiously optimistic."

One of the indicators that has been doing exceptionally well lately—auto sales—could be in for a modest near-term dip. It would be unrealistic to assume a continuation of the 12 million-plus annual rate of the past few months (see chart), particularly with the removal of the 7.7% financing incentives.

But the industry is still talking about 11 million unit sales for 1986—about the same as 1985. Also, truck sales should meet the 1985 all-time peak of 4.6 million units.

Factory overtime numbers also support the somewhat improved outlook. At latest report, this key indicator of factory demand pressure was estimated at 3.3 hours—up significantly from the 3.1 low of a few months ago.

Even capital spending looks pretty good. The climb has flattened out, but at record high levels. And unspent backlogs of previously authorized funds seem to guarantee there will be no near-term decline.

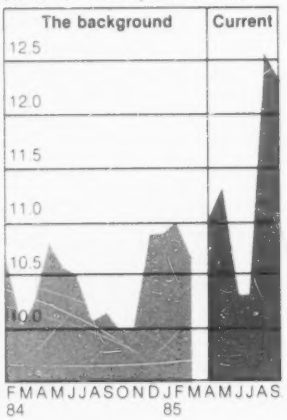
There is also the booming construction industry where contract awards have remained on a high plateau since early spring. More important, the strength is broadly based, covering residential, nonresidential, and public construction.

And there's the still relatively easy credit policy being pursued by the nation's money managers. Given the U.S. commitment to weakening the dollar, there's little the Fed can do to reverse this trend.

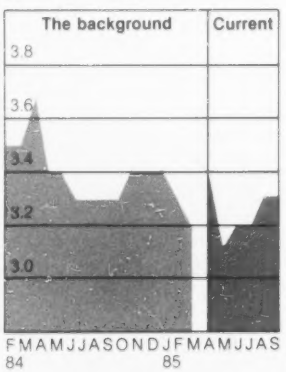
Perhaps most reassuring of all are the results of the National Association

Leading indicators

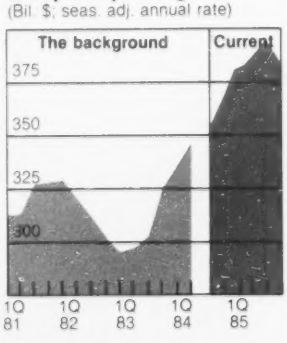
1. Auto sales
(Millions, seas. adj. annual rate)



2. Factory overtime
(Hours, seas. adj.)



3. Capital spending
(Bil. $, seas. adj. annual rate)



of Business Economists survey. The top 350 corporate analysts queried by the survey predict a respectable 2.7% real growth rate now through late 1986.

While some of these economists still feel that a recession by late next year can't be ruled out entirely, their numbers are way down from a year ago when the same question was asked. At that time, an overwhelming 87% of the respondents were worried about a possible downturn either in late 1985 or in 1986.

Lean is the mien

PMs and other top execs charged with monitoring inventories are amazing even the experts.

For the first time in history, factory stocks have failed to rise during the mature stages of a business recovery.

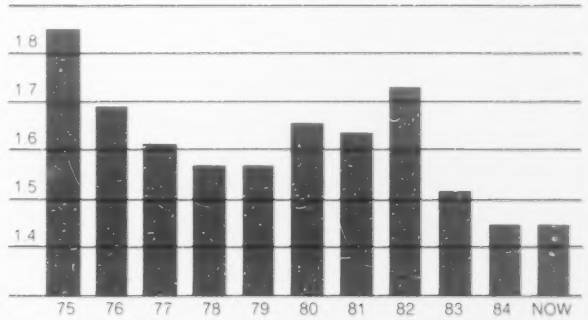
This all seems to be part of a long-term trend. As noted in the chart, current levels (measured as a percent of sales) have dropped an eye-opening 20% under decade-ago levels.

It is not all that difficult to find the reasons. *PW* talks with purchasing managers and several leading economists suggest that several factors may be at work, including:

- **Changing market climate:** Specifically today's ready-availability and lack of inflation. This has not only been an open invitation to hand-to-mouth buying, but has also sharply reduced the need for hedge purchases.
- **High inventory carrying costs:** Given today's still-high interest rates, it takes anywhere from 1.5-2% a month to maintain stocks. That's 18-24% annually—high enough to give most firms a strong incentive to keep stocks trim.
- **Improved inventory management:** Part of this stems from improved computer controls. But an added push comes from the increasing interest in just-in-time delivery techniques.
- **Improved end-use forecasting:** Computerized approaches have helped here, too. But equally important are the more sophisticated personnel charged with managing the inventory function.
- **Strong import pressures:** Domestic manufacturers—from the basic raw material all the way to finished products—have had to improve pipeline flow becuse this is one of the few ways they can undercut the cost advantage of buying cheaper foreign products.

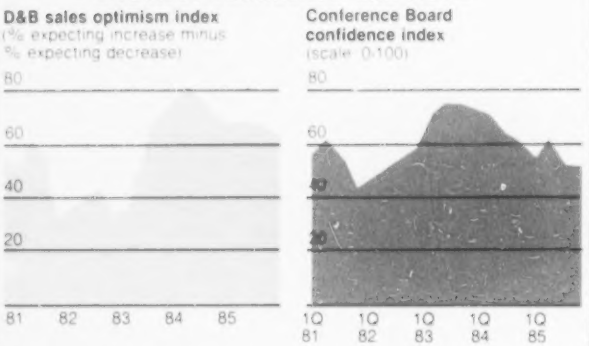
Factory stocks stay slim

(Stock/sales ratio)



Source: Commerce Dept

Business confidence: two views



Mood still positive in the exec suite

Nobody is expecting miracles, but top business executives are still bullish. Results of two recent surveys tell the story:

- Dun & Bradstreet's Sales Optimism Index, based on replies from 1,400 business executives, has fallen off a bit from last year's high. But it still remains far above the lows of 1982-83 with those respondents expecting increases still outnumbering those seeing decreases by almost 9:1.
- The Conference Board's Confidence Index, based on a 1,500 firm sample, follows a similar pattern. The latest 51 reading is below recent levels, but is still well ahead of the recession lows of a few years back.

The mood in the corporate suite is perhaps best summed up by Joseph Duncan, corporate economist and chief statistician for D & B: "Business leaders have taken a more cautious attitude regarding inventory surpluses, increased sales, and profits. On the other hand, prices have stabilized, indicating that inflation is under control."

Here are some of the specifics of the D & B survey (fourth quarter 1985 vs. fourth quarter 1984).

- **Prices:** Some 32% of companies see prices running ahead of last year. This represents a fair-sized drop from three months ago when 38% were counting on higher quotes.
- **Profits:** A slight decline is seen here—63% are now counting on fourth quarter gains vs. 68% three months ago.
- **New orders:** Pretty much the status quo here with the same 69% anticipating gains as noted three months ago. That's still good news when compared to only 8% who see declines.
- **Inventories:** Tight fistedness continues with 35% anticipating gains.

CURRENT PRICES

Industrial prices: signs of declines

Price softness is spilling over into the fourth quarter and industrial producer quotes are actually edging down 0.3% over the latest 30-day period.

Biggest declines were in the transportation sector this time around, as tags on cars and trucks dropped significantly (reflecting year-end clearances of leftover 1985 models).

But weaknesses were also noted in other highly fabricated areas too. Thus both agricultural and woodworking machinery also edged lower and the overall capital equipment price index dropped by a substantial 0.6%

Key components and raw materials were none too strong either. Declines have been noted in motor

This month's breakdown

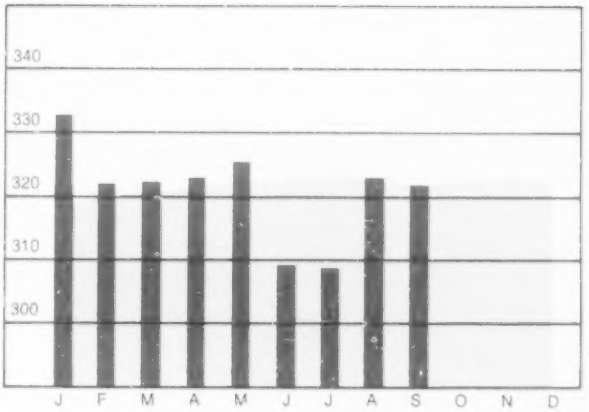
	Latest level (Sept.)	% change from: Month ago	Year ago
Bearings	353.5	−0.2	2.7
Bolts, nuts, etc	278.2	0.2	0.5
Chemicals, inorganic	300.7	0.0	−2.0
Chemicals, organic	356.8	−0.5	−0.2
Concrete products	323.3	0.2	3.7
Corrugated cartons	266.5	0.0	−2.2
Cutting tools, small	286.5	0.0	1.9
Electric lamps (bulbs)	346.9	0.7	4.5
Electronic components	197.4	−0.1	1.0
Fans and blowers	359.7	0.0	2.3
Foundry and forge products	364.1	−0.1	0.2
Fuel oil (residual)	932.4	0.2	−16.0
Furniture, commercial	311.6	0.7	4.7
Gasoline	562.4	−2.2	2.3
Glass, flat	225.5	−0.4	2.6
Glass containers	386.9	1.4	6.1
Gypsum products	329.6	−2.5	−7.3
Hand tools	375.2	0.0	3.6
Hand tools, power driven	234.0	0.2	3.9
Industrial furnaces	385.5	0.0	2.3
Integrating and measuring instruments	232.3	−0.1	1.0
Internal combustion engines	348.5	0.3	2.7
Lubricating oil	N/A	N/A	N/A
Lumber millwork	313.3	−0.2	1.9
Material handling equipment	295.1	−0.2	1.6
Metal containers	357.7	−0.1	1.5
Metal mill shapes (nonferrous)	307.5	−0.3	−3.7
Metal tanks	305.0	−0.4	−0.2
Motors and generators	351.6	0.1	3.4
Motor trucks	272.9	−7.1	1.7
Office and store equipment	154.9	0.0	0.8
Paperboard	266.6	0.1	−7.6
Paper boxes and shipping containers	267.9	−0.4	0.4
Paper office supplies	239.6	0.2	−2.8
Paint	278.8	−0.1	−0.1
Plastic resins	305.4	0.1	−2.1
Precision measuring tools	263.2	0.0	3.9
Pumps and compressors	357.4	0.1	2.2
Refractories	372.2	0.0	2.9
Rubber belts and belting	343.5	1.7	−1.1
Scales and balances	229.0	−0.1	−1.4
Steel products	363.3	0.0	−0.5
Switchgear	278.0	0.0	0.1
Textiles, synthetic fibers	154.6	−0.3	−2.9
Textiles, gray fabrics	150.5	0.2	−2.7
Tires and tubes	236.6	0.0	−3.1
Transformers and power regulators	231.8	−0.2	1.4
Welding equipment	291.9	0.1	0.8
Wire and cable	205.6	0.0	1.9

Industrial prices

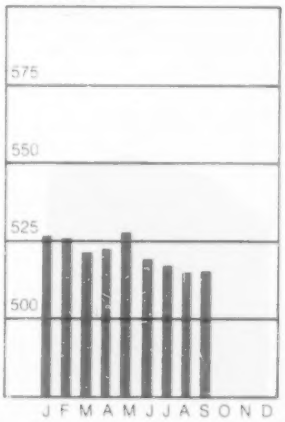
(Index: 1967 = 100)

1984 1985

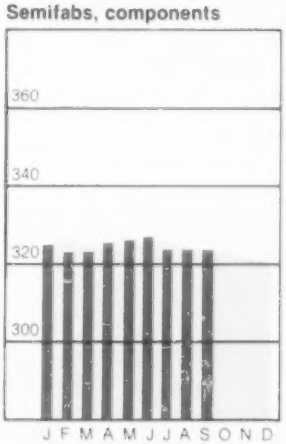
All items



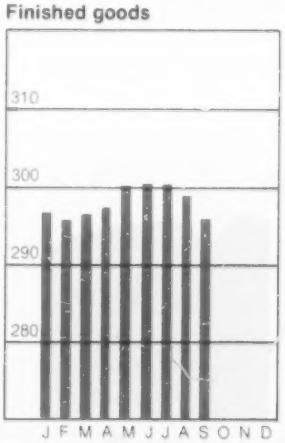
Raw materials



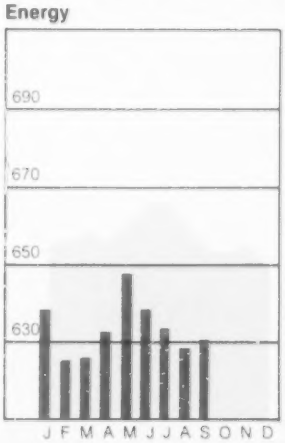
Semifabs, components



Finished goods



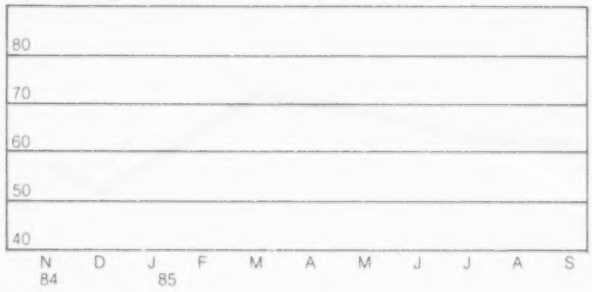
Energy



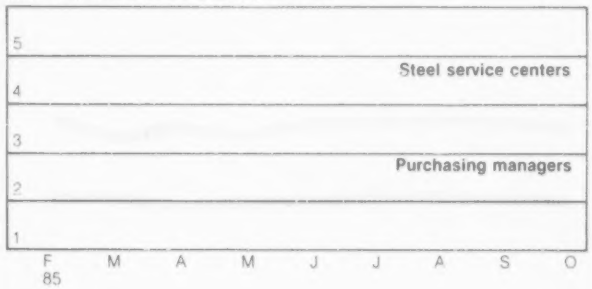
Source: Bureau of Labor Statistics

Steel

Operating rates

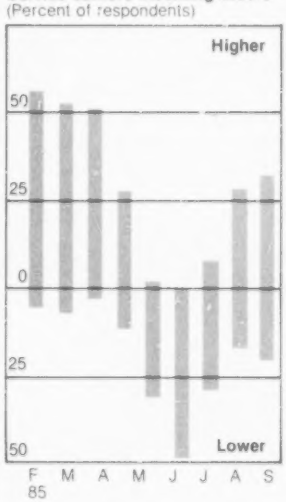


Inventories (months supply on hand)

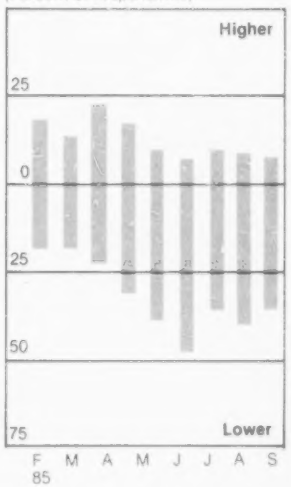


Demand

Service centers incoming orders
(Percent of respondents)

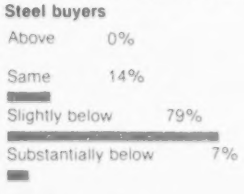


Steel buyer purchase
(Percent of respondents)

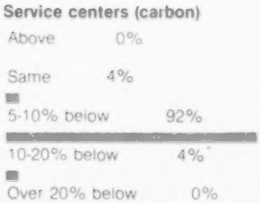


Import prices (compared to domestic)

Steel buyers



Service centers (carbon)



Source: Steel Service Center Institute, NAPM Steel Buyers Committee

vehicle parts, electronic components, several nonferrous metals, flat glass, paper, paint, synthetic fibers, processed yarns and threads, and organic chemicals.

Construction materials, while showing no overall change, also sported a few notable declines. Softwood lumber, plywood, gypsum products, sand and gravel, and timber are all off from month-earlier levels.

The same mixed picture appears in the energy sector. Continued declines in gasoline, for example, were enough to offset modest advances in jet fuel, diesel fuel, home heating oil, and coal.

Perhaps the most encouraging sign of all (at least from the PM point of view) was the continuing decline in so many items. Thus roughly 40% of the 50+ product lines monitored in *PW*'s regular monthly rundown (see table) edged lower *vis a vis* month-earlier levels.

Also worth noting: The aggregate price index for crude oil is now running close to 6% under last fall—a pretty good indication that material cost pressures are still pretty much under control.

STEEL SCENE

Steel showing some mettle

The stage may be set for a modest recovery in steel demand. Not only are inventories down a bit from recent levels, but both buyers and service centers are talking about somewhat greater usage in the months immediately ahead.

On the inventory front, for example, buyers responding to the latest NAPM steel user survey put their average stocks at just over two months—off about 4% from summer highs.

A similar trend is noted by distributors responding to the latest Steel Service Center Institute (SSCI) survey. Current holdings are put at 3.5 months—down about 5% from as recently as August.

Demand expectations over the next few months are also looking up—particularly in the service center sector where about one in every three respondents expect an uptrend in orders over the next three months—nearly double the 18% who feel some new declines are possible.

Bolstered by this information, SSCI president Andrew Sharkey is predicting anywhere from a 21.0-21.5 million ton shipment year for his group—up slightly from the 20.9 million tons that cleared the market last year.

Sharkey also notes that despite record shipping levels, market strength continues to be narrowly concentrated in automotive, appliance, construction, and defense. Other important markets, such as farm equipment, general machinery, and mining continue to show few signs of life.

Turning to prices, Sharkey confirms recent softness. Despite the fractional overall tonnage gain, he feels 1985 dollar

sales could be off anywhere from 5-10%.

In large part this can be traced to the still-large influx of cheap steel imports which this year is estimated at near 23 million tons.

Some 96% of the service centers, for example, say carbon steel is coming in 6% or more under comparable U.S. levels. The figures are even more impressive in stainless where the metal is coming in at 6% or more under U.S. prices. Nearly 20% of survey respondents put the price break in the 11-20% range.

Buyer reports suggest similar price bargains—with 7% dubbing the price advantage as "substantial."

But it's doubtful whether these cheaper imports will be available in today's tonnages for very much longer.

Point worth noting: Some 30% of the queried service centers expect to be less dependent on overseas metal over the next six months with not one respondent expecting to increase his foreign share.

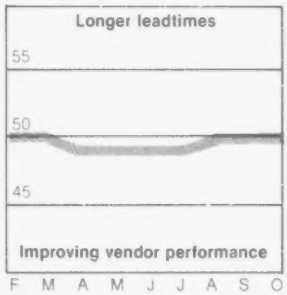
This, in turn, could eventually mean higher service steel tags. Several distributors, for example, are already saying that import restraints should give sellers some additional bargaining leverage by early next year.

But import restraints or not, there should be more than enough steel to go around. Right now, for example, both service centers and steel users are in complete agreement that not one single item will be in short supply over the next few months.

Monthly procurement status report

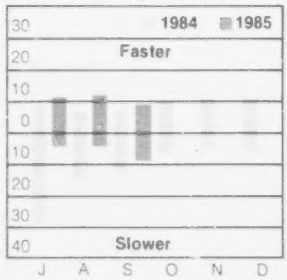
Leadtime index

A "diffusion" index based on 158 key commodities. Avove "50" indicates a tendency for leadtimes to stretch out. Below "50" suggests improving vendor performance.

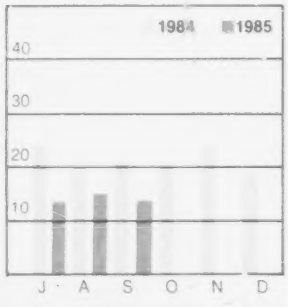


Delivery performance

(Percent reporting deliveries)

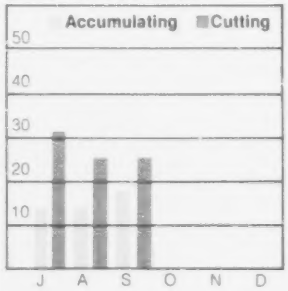


Forward commitments



Inventory strategy

(Percent of respondents)



Source: NAPM

PROCUREMENT STATUS

Still on the 50 yardline

Fall activity is supposed to be up. But you would never know it by looking at key procurement yardsticks.

PW's exclusive lead time index is squarely on the neutral 50 mark—meaning any stretchouts that have been occurring are being effectively offset by shrinkages in other sectors. And NAPM's speed-of-delivery report still shows an equal number reporting slower deliveries as those reporting faster deliveries (each 9%), with the remaining 82% reporting very little overall change.

Moreover, purchasing managers still seem to be playing their procurement cards close to the vest. One out of four, for example, is ordering production materials on a hand-to-mouth basis. That's a big jump from the 16% reading noted in the previous month.

The story is much the same as far as inventories are concerned. Specifically, the 26% of the respondents who are cutting remains unchanged from last month. Equally significant, parers have now outnumbered accumulators for 12 months.

Reasons for all this: (1) For the eighth straight month the NAPM Business Survey Report has failed to point up a single item in short supply and (2) price decreases continue to top increases for 10 straight months—with 19% reporting decreases and only 7% reporting increases.

In sum, it's still an all-out buyer's market with little on the horizon to suggest any change, certainly not for the next 3-6 months.

Leadtimes and availability

Chicago: Coming in (in weeks) are chrome chemicals (½-1), aluminum sheet (8-10), aluminum plate (10), special copper tube (5), resistors (6-12). Coils could drop to 6 by late fall. Out a bit are special brass and copper sheet (5) and common process stearates (1-1½).

Cleveland: Higher weekly waits for polyethylene (3-4), fiberboard and chipboard (3-4), plastic packaging material (3-4), and plywood and softwood lumber (1-3). In are hardwoods (1-2), multiwall paper (4-5), steel drums and canisters (1), and maintenance paint (1-2).

Los Angeles: A carbon copy of last month with these leads: galvanized steel (12-14), grey iron castings (6-8), brass castings (4-6), domestic fasteners (4-6), standard bearings (20-24), standard valves (10-12), lube oils (2), and choice white greases (2).

Houston: The only big change here is in heat exchangers—in one month to 6-8 weeks. Other weekly waits: pumps (16-28), corrugated cartons (2), HDPE (2-3), and stainless fasteners (8-10).

Philadelphia: Electronic components continue to ease with these weekly leads: CMOS ICs, large scale ICs, and LTL ICs are all off the shelf to 12; memory ICs (to 10), connectors (8-12), relays (6-8), and resistors (4-6).

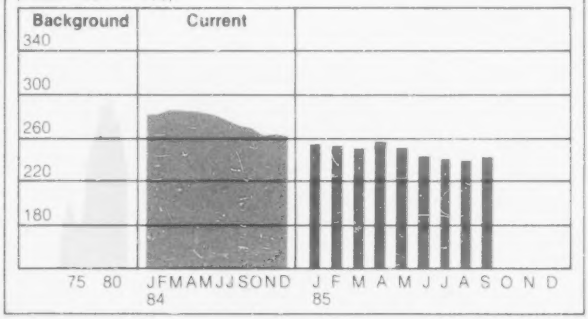
Pittsburgh: Everything continues easy. Sample weekly waits: multiwall bags (4-6), corrugated and folding boxes (4-6), wirebound boxes (5), drums (1), seals (1-2), paint (4-5), polyethylene and PVC (6), and alloying materials (2).

BUSINESS DATATRAK

Raw material price barometer

(Index: 1967 = 100)

Latest month	240.1
Month before	240.0
Year ago	274.0



Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	23.90	23.90	24.40
Steel, bars, dlvd. Phila., cwt., merchant quality	23.95	23.95	23.95
Steel, bars, Pitts., cwt.	23.95	23.95	23.95
Steel, bars, C.R., Pitts., cwt.	29.25	29.25	29.25
Steel, plates, Pitts., cwt.	23.25	23.25	23.25
Steel, plates, H.R., Pitts., cwt.	23.25	23.25	23.25
Steel, sheets, C.R., Detroit, cwt.	27.85	27.10	27.10
Steel, strip, C.R., Chi., cwt.	36.18	36.18	35.30
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	0.465	0.475	0.485
Antimony, in alloy, lb.	2.00	2.00	2.00
Beryllium-copper, cost ingot, lb.	5.35	5.35	5.20
Brass, red, 85%, [sheet], lb.	1.29	1.29	1.24
Brass, yellow, [sheet], lb.	1.24	1.24	1.19
Cadmium, ton lots, lb.	1.00	1.00	1.55
Copper, electrolytic, wire bars, refd., lb.	0.66	0.66	0.62
Copper sheet, over 24 in., lb.	1.38	1.38	1.33
Lead, common, N.Y., lb.	0.190	0.190	0.220
Magnesium, pig ingot, [99.8%], lb.	1.48	1.48	1.48
Mercury, 20 fl. lots, N.Y., fl.	318.00	317.00	322.00
Molybdenum, oxide, dealer lb.	2.90	3.15	3.61
Nickel, cathode, dealer lb.	2.10	2.30	2.21
Platinum, dealer, oz.	315.00	318.00	326.00
Silver, N.Y., oz.	6.30	6.04	7.14
Tin, Straights, N.Y., lb.	6.07	5.95	6.05
Zinc, Prime West, East St. Louis, lb.	0.38	0.41	0.45
Zinc, die casting alloy, No. 3, lb.	0.445	0.485	0.515
PAPER			
Uncoated book #3 offset, ton	850.00	850.00	850.00
Watermarked bond, ton	985.00	985.00	985.00
Gummed sealing tape, carton	16.18	16.22	15.65
Boxboard, mach. clay ctd. recycled sheets 80 bright, .016, ton	495.00	495.00	495.00
Wrapping paper, std. distributor cost, kraft, basis wt. 50 lb., roll	28.00	28.00	28.00
Kraft linerboard, 42 lb., unbleached, ton	290.00	290.00	350.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	0.257	0.258	0.380
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.045	1.040	1.040
Cotton middling, 1", N.Y., lb.	0.563	0.566	0.595
Printcloth, 48", 80x80, N.Y., spot, yd.	0.68	0.62	0.79
Army duck, 37", 13 oz., yd.	1.30	1.70	1.78
Blended printcloth, 64", 78x54, yd.	0.830	0.680	0.770
20s combed yarns	1.95	1.95	2.10
Wool tops, N.Y., lb.	3.60	3.60	3.60

	Latest price	Previous month	Year ago
CHEMICALS			
Acrylonitrile, tanks, lb.	0.455	0.455	0.455
Ammonia, anhydrous, fertilizer, wholesale, tanks, ton	210.00	210.00	210.00
Benzene, petroleum, tanks, Houston, gal.	1.35	1.47	1.18
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	0.58	0.58	0.58
Formaldehyde, USP, 37% [12% to 15% meth.], tanks, lb.	0.106	0.106	0.106
Glycerine, synthetic, tanks, lb.	0.91	0.91	0.81
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	0.52	0.52	0.54
Naphthalene, crude, tanks, lb.	0.22	0.22	0.22
Phthalic anhydride, tanks, lb.	0.270	0.270	0.305
Polyethylene resin, low density liner film grade (market price), lb.	0.280	0.280	0.350
Polypropylene, homopolymer grade (market price), lb.	0.350	0.350	0.390
Polystyrene, general purpose grade (market price) lb.	0.350	0.360	0.370
Polyvinyl chloride, pipe grade (market price), lb	.260	.250	.215
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	0.26	0.30	0.35
Sulphur, crude, ex-terminal, Tampa, Fla., lt.	157.50	157.50	147.50
Sulphuric acid, 66%, commercial, tanks, ton	66.86	66.86	56.85
Titanium dioxide, anatase, reg., carlots lb.	0.69	0.69	0.69
Xylene tanks, gal.	1.36	1.36	1.25
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	318.35	322.35	311.35
Lumber, 2x2, pine, mbf, cl	293.70	289.85	293.25
Plywood, plyform, ¾", msf, cl	584.00	583.10	576.75
Plywood, ⅜", msf, cl	381.55	382.45	384.45
Cement, bulk, ton, tl	64.91	64.91	63.75
Sand, ton, cl	6.36	6.35	6.20
Ready-mix concrete, 3,000 psi/cu yd., 15 cu. yd.	48.00	47.99	46.84
Crushed stone, 1½", ton, cl	7.80	7.80	7.43
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl	0.82	0.81	0.78
Gypsum sheathing, ½"x1"x8", msf, tl	208.19	207.94	207.22
Brick, common, per thousand, tl	183.70	183.70	173.38
Asphalt paving, AC-20	176.69	176.97	169.92
Concrete sewer pipe, 12", prem. joint, per foot, cl	7.14	7.13	7.08
FUELS			
Fuel oil, No. 6 or Bunker C, Gulf., bbl.	21.40	22.25	26.50
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	29.50	28.75	31.00
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	0.775	0.785	0.810
Gasoline, 94 oct., reg., Chi., tank car, gal.	0.754	0.774	0.803
Heating oil, No. 2, Chi., bulk, gal.	0.805	0.768	0.820
Heating oil, No. 2, N.Y., bulk, gal.	0.840	0.770	0.808
Heavy fuel, PS 400, Los Angeles, rack, bbl.	26.50	26.50	26.50
Jet kerosene, gal.	0.823	0.803	0.785
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	0.320	0.320	0.420
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	73.00	75.00	89.00
Steel, No. 1, hvy., dlvd., Chi., ton	71.00	71.00	80.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	0.565	0.550	0.515
Copper, No. 2, East, wholesale buy,	0.480	0.470	0.425
Brass, red, East, wholesale buy, dlvd., lb.	0.525	0.510	0.475
Brass, yellow, East, wholesale buy, dlvd., lb.	0.330	0.330	0.350
Alum., old sheet/cast, E., wholesale buy, dlvd. lb.	0.300	0.295	0.305
Alum., mixed clip., E., wholesale buy, dlvd., lb.	0.325	0.325	0.325
Zinc, old, East, wholesale buy, dlvd., lb.	0.110	0.110	0.200
Lead, clean solids, East, wholesale buy, dlvd., lb.	0.100	0.110	0.110
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	10.00	10.00	28.00
Paper, old corrug. box, dlr., N.Y., ton	8.00	8.00	23.00
Osnaburg cuttings, dlr., f.o.b. N.Y., lb.	0.09	0.09	0.12
White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb.	0.18	0.19	0.37

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]

Commodities taking some lumps

The long-term outlook for commodities spells good news for buyers, bad news for sellers, according to the World Bank's new report, *The Outlook for Primary Commodities.*

Some of the more specific price projections over the next decade (in constant dollar terms) are detailed in the accompanying chart. In the case of metals (notably copper, tin, lead, and steel), the forecasts suggest continuing depressed markets. Price boosts will be limited by substitution, environmental constraints, and lingering overcapacity.

Supply excesses are the result of poor demand growth, over-optimism on demand prospects, and the spur to investment provided by the first low real interest rates available since the oil price increases in the early 1970s.

The present metal overcapacity may also be due to the old concern about the depletion of fixed resources and the ensuing government intervention to increase investment.

Some action to correct these imbalances is underway. There already has been substantial rationalization in Japan with respect to aluminum, and in the U.S. with steel, iron, zinc, and copper.

But the impact of all this on prices will be slow in coming. Tags on most of the metals and other commodities should hold in 1990 at below pre-recession highs in 1970s—at least in real or constant dollar terms.

The prognosis is much the same in energy. The study notes that non-OPEC surpluses will moderate through the end of the decade. As a result, while petroleum in *current* dollars could be over $40/bbl by 1990, the increase in *constant* dollars will be marginal—to only $29.50/bbl in 1990.

Equally indicative of softening markets are the relatively restrained demand projections given in the report. The long-term metals picture shapes up like this:

Aluminum: World consumption will increase at only a very moderate 2.9% annual rate through 1995. Growth in industrialized countries will be held down by 1) replacement of aluminum by plastics in construction, and 2) the approaching saturation in the packaging area. Recycling of scrap will also reduce primary aluminum needs and is expected to capture 35-37% of the market in industrial countries by 1995.

Copper: World consumption will grow at only a 1.9% annual rate through 1995—with the advance for industrial countries put at only 1.2%. However, the centrally planned economies will up their yearly take by 2%—and developing countries could show advances of above 4% a year.

Zinc: World demand will show somewhat faster growth here. Reasons: 1) Industrial countries are expected to increase their use of the metal to protect iron and steel against corrosion, and for the development of new galvanized surfaces which may be painted, 2) Downsizing of automobiles is slowing, and 3) New applications are being developed.

Lead: Long-term prospects do not look good. Over the next decade consumption in industrial countries will grow only 1.2% at annual rate. Industrial growth in Japan, however, could be a bit more robust—maybe 2.7% per year.

Nickel: Demand is closely tied to demand for steel since 50% of the metal is used in steel production. Look for little more than 1.5% annual increases through 1995.

Tin: Demand, which has fallen in recent years, should stabilize at 1979-81 levels. Gains seem remote—tinplate, which accounts for 40% of total use, faces stiff competition from other materials. Improved application procedures for tinplate have also reduced requirements. ***PW***

A long look ahead at commodity prices (in constant 1983 dollars)

Commodity	Pre-recession high	1990	1995
Petroleum ($/bbl)	32.7	29.5	36.1
Coal ($/mt)	54	42	45
Cotton (¢/kg)	187	173	175
Copper ($/mt)	1,993	1,577	1,717
Tin (¢/kg)	1,532	1,182	1,200
Nickel, dealer ($/mt)	6,421	4,728	5,140
Aluminum, transaction ($/mt)	1,580	1,488	1,629
Lead ($/mt)	1,195	530	547
Zinc ($/mt)	807	893	900
Iron ore ($/mt)	25.1	22.0	22.0
Bauxite ($/mt)	38.1	33.5	35.2
Manganese ore (¢/mtu)	160	139	139

Source: World Bank

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Where does the time go in purchasing?

D. Craig Rathbun and Robert L. Janson, Ernst & Whinney, Cleveland, OH

Ten years ago, Dean S. Ammer conducted a study of purchasing and found that a general corporate-wide ignorance existed about what the purchase process actually entailed. He concluded that a gap existed between top management's perception of the function and purchasing management's perception.

Today, with the emphasis on cost containment, the purchasing function has become increasingly important, calling for a need for better understanding and commitment corporate-wide. In order to gain insights into the possible contributions purchasing can make, and to increase understanding of the function, Ernst & Whinney conducted a study of how purchasing personnel currently invest their time.

The object of the study was to determine the amount of time each level of personnel in the department spent on specific activities. It was not our intention to report on productivity or to set standards. We felt that identifying the activities with their associated time expenditure would illuminate the contributions being made by the department to company objectives.

Participating companies

In order to study both small and larger companies in manufacturing and service industries, we asked seven purchasing departments, with from two to 22 purchasing employees to participate. The organizations included a small and two medium size manufacturing companies (M1, M2, M3), a medium size bank (B1), a medium and large size hospital (H1, H2), and a large city government (G1).

The participants included all departmental personnel directly connected with the purchasing function—from directors and managers to expeditors and support personnel. Each used self-logging forms to record the time spent performing each listed activity, which included 13 primary activity groups and 40 subcategories tailored to each company.

We visited each department to view the operations from the inside and to instruct each individual about the study and to answer their questions. The study covered 10 working days.

Conclusions

- The final statistics are remarkably close regardless of the type of organization—banking, manufacturing, health care, or government.
- Many of the directors—prior to seeing the results—had expected to see a much greater expenditure of time on negotiations.
- A surprisingly small amount of time was spent outside the company with vendor representatives.
- In most cases, preparation to buy consumed the largest percentage of directors' and managers' time.

The accompanying tables and charts give detailed results of the study.

THE AVERAGE PERCENTAGE OF TIME SPENT PERFORMING THE PURCHASING FUNCTIONS FOR ALL FIRMS *

* Includes the Director, Buyer & Support Personnel Time

How does your company compare?

Depending on the type of industry you are in, you should be able to identify with the characteristics of one of the participating firms. Try contrasting your purchasing department with the findings of this study.

A detailed breakdown of purchasing functions

1. **Preparation to buy:** This category includes all the tasks necessary to begin the buying function.
- reading mail and supplemental material
- processing requisitions
- updating purchasing files
- researching, verifying, and maintaining supplier information

2. **Selection of potential sources of supply:** This category includes all the necessary task needed to provide appropriate information on which vendors can meet the requested need.
- obtaining specifications for POs
- writing/challenging specifications
- value analysis

• consulting between vendors and users
• make, buy, or lease analysis
• vendor visits

3. **Interviews:** This includes the general tasks in discussions with sales representatives.
• sales interviews
• courtesy interviews (company policy to see all sales representatives)
• meals with vendors

4. **Performing the order function:** This includes the tasks necessary to place the actual order.
• typing POs and changes
• proofreading, processing, and signing POs
• posting to records
• filing
• writing correspondence and memos
• photocopying and distributing POs
• miscellaneous typing
• placing the order
• invoice approval
• processing paperwork

5. **Negotiations:** Once potential vendors have been identified, prices, terms, and conditions are established prior to signed purchase agreements.

6. **Activities after placing the purchase order:** This includes the duties once the order is issued.
• delivery acknowledgments
• processing rejections
• processing invoices
• resolving mismatched invoices
• split purchase orders

7. **Expediting, phone inquiries:** This includes the tasks necessary to identify potential delivery problems and follow-up on predetermined quality and quantity requirements.

8. **Traffic, shipping, and receiving:** Includes the tasks which insure that all incoming and outgoing orders are delivered to their proper place.
• arranging freight modes and rates
• receiving discrepancies
• processing freight bills
• tracing inbound
• processing shipping rejections
• handling shipping requests

9. **Organizational meetings**
• formal and informal

10. **Other purchasing activities:** These are activities that must be performed to meet the needs of the firm or institution.
• discussing quality problems
• disposing of scrap and surplus
• claims adjustments
• attending outside activities
• computer applications

11. **Managerial analyses, training, and reporting:** These tasks are necessary to planning, organizing, and controlling purchasing activities.
• planning activities
• analyzing and evaluating vendor performance
• monitoring purchasing activities
• preparing reports
• writing policies/procedures
• training personnel
• handling personnel problems
• project follow-up and analysis

12. **Personnel time**
• break time

13. **Lunches without vendors**

14. **Miscellaneous non-purchasing duties**
• receptionist
• handling travel arrangements
• telex, operations, telecommunications
• mail room
• warehousing functions **PW**

Ernst & Whinney, the Cleveland-based international accounting firm, provides consulting services in purchasing to many U.S. companies and institutions.

The study required only a modest investment of time to record time expenditures by the 13 major categories. If you would like to have your department participate in a further study, please **Circle 100.** *and the authors will contact you with more information.*